

Message Text

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C O N F I D E N T I A L STATE 096564

E.O. 11652: GDS

TAGS: CIEC, ECON, EFIN

SUBJECT: CIEC: FINANCIAL AFFAIRS COMMISSION - SUGGESTED
REVISION OF NEW SWISS DRAFT ON INFLATION

REF: OECD PARIS 12145

1. SWISS DRAFT SEEMS INAPPROPRIATE. A U.S. DRAFT WILL BE
CABLED TOMORROW. IN THE MEANTIME, IF A REVISION TO THE
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SWISS PAPER IS REQUIRED, THE SUGGESTED TEXT FOLLOWS:

2. THE STATES PARTICIPATING IN THE CIEC RECOGNIZE THAT AN
INFLATIONARY ENVIRONMENT IS DAMAGING TO THE ECONOMIC
PROGRESS OF BOTH DEVELOPED AND DEVELOPING COUNTRIES AND
DISTURBS THE FUNCTIONING OF INTERNATIONAL ECONOMIC AND
MONETARY RELATIONS. CONTROL OF INFLATIONARY PRESSURES
IS THEREFORE VITAL TO THE IMPROVEMENT OF ECONOMIC WELL-
BEING WORLDWIDE AND TO THE STABILITY OF THE ECONOMIC AND

MONETARY ORDER.

3. INFLATIONARY PRESSURE ACCENTUATES NATIONAL AND INTERNATIONAL INCOME AND RESOURCE DISTRIBUTION PROBLEMS, EXCHANGE RATE INSTABILITY AND BALANCE OF PAYMENTS DISEQUILIBRIA. IT PERPETUATES RECESSION AND UNDEREMPLOYMENT AND THUS HOLDS BACK, IN THE LONG RUN, THE GROWTH OF THE ECONOMIES OF THE DEVELOPED AND THE DEVELOPING COUNTRIES ALIKE, WITH THE CONFIDENTIAL

GREATER BURDEN BEING BORNE BY THE POORER COUNTRIES.

4. THE PARTICIPATING STATES ARE DETERMINED TO CONTROL INFLATION. THEY WELCOME THE EFFORTS MADE BY DEVELOPING AND DEVELOPED COUNTRIES TO ACHIEVE THIS AIM AND ARE DETERMINED TO CONTINUE ON THIS COURSE AND TO AVOID ANY MEASURES THAT MIGHT REGENERATE OR PROLONG THE EXISTENCE OF INFLATIONARY PRESSURE. THEY RECOGNIZE THE NEED TO PURSUE THESE EFFORTS IN ORDER TO ACHIEVE STEADY GROWTH OF THE WORLD ECONOMY AND TO ENSURE THAT DEVELOPMENT POLICIES CAN BE PURSUED ON A SOUND AND STABLE BASIS. THEY AGREE THAT THE ACHIEVEMENT OF THIS TARGET DEMANDS A CONCERTED EFFORT BY THE INTERNATIONAL COMMUNITY.

5. THE PARTICIPATING STATES AGREE THAT THE CONTROL OF INFLATION IS PREREQUISITE TO THE RESTORATION AND MAINTENANCE OF STABLE GROWTH AND THAT THIS MUST BE CONFIDENTIAL

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REFLECTED IN THE FORMULATION OF THEIR ECONOMIC AND MONETARY POLICIES.

6. THE PARTICIPATING STATES NOTE THAT WHILE CONTROL OF INFLATION IS A UNIVERSAL CONCERN, COUNTRIES MAY DIFFER IN THE MANNER AND DEGREE TO WHICH THEIR POLICIES AFFECT THE GENERAL TREND OF PRICES. THUS, LARGE ECONOMIES WHOSE ECONOMIC POLICIES HAVE WORLDWIDE REPERCUSSIONS HAVE A MAJOR RESPONSIBILITY TO CONTAIN WORLD INFLATION THROUGH THE PURSUIT OF MONETARY, FISCAL AND, WHERE APPROPRIATE, INCOMES OR SELECTIVE POLICIES. SIMILARLY, COUNTRIES EXPORTING RAW MATERIALS, ESPECIALLY PETROLEUM, THAT ARE IN A POSITION TO INFLUENCE WORLD PRICES OF SUCH PRODUCTS, HAVE A MAJOR RESPONSIBILITY TO MAINTAIN ADEQUATE SUPPLY AT REASONABLE PRICES.

7. THE PARTICIPATING STATES, RECOGNIZING THAT CONTROL OVER INFLATION IS A PRECONDITION FOR SUCCESSFUL ECONOMIC DEVELOPMENT, AGREE THAT ALL COUNTRIES SHOULD TAKE ALL MEASURES AVAILABLE TO THEM TO RESTORE AND MAINTAIN PRICE STABILITY AND COUNTERACT INFLATIONARY EXPECTATIONS.

AMONG SUCH MEASURES THE FOLLOWING ARE ESSENTIAL:

-- TO PURSUE EFFECTIVE DEMAND MANAGEMENT THROUGH FISCAL, MONETARY AND, WHERE APPROPRIATE, SELECTIVE POLICIES DESIGNED TO INSURE STEADY GROWTH WITH STABILITY AND TO FORESTALL ANY RESURGENCE OF INFLATIONARY EXPECTATIONS.

-- TO FOSTER THE UNRESTRICTED INTERNATIONAL EXCHANGE OF GOODS, SERVICES AND CAPITAL, TO ASSURE THE BENEFITS OF FREE COMPETITION, PREVENT THE MANIPULATION OF MARKETS BY PRIVATE ENTERPRISES OR OTHER ECONOMIC AGENTS, AND TO IMPROVE MARKET ACCESS FOR PRODUCTS OF DEVELOPING COUNTRIES.

-- TO EMPHASIZE THE NEED TO SHIFT RESOURCES TO THE INVESTMENT SECTOR, BUILD THE NATIONAL CONSENSUS THAT WOULD

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REDUCE THE POTENTIAL FOR STRUGGLES ABOUT INCOME SHARES, AND TAKE MEASURES TO IMPROVE PRODUCTIVITY.

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